

THE INFLUENCE OF MACROECONOMIC AND MICROECONOMIC VARIABLES ON CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE

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Abstrak

Penelitian ini meneliti tentang pengaruh variabel makroekonomi dan mikroekonomi terhadap struktur modal dan kinerja keuangan dari Perusahaan-Perusahaan Makanan dan Minuman selama periode 2004-2010. Dengan menggunakan metode Partial Least Square (PLS), hasil menunjukkan bahwa variabel makroekonomi dan mikroekonomi memiliki pengaruh negatif yang signifikan terhadap kinerja keuangan. Sedangkan struktur modal menunjukkan pengaruh positif yang signifikan terhadap kinerja keuangan. Hal ini mengindikasikan bahwa perusahaan yang menguntungkan lebih bergantung pada hutang sebagai alat pembiayaan mereka yang utama.

Kata kunci: Struktur modal, Indonesia, Kinerja Keuangan, Perusahaan Makanan dan Minuman

Abstract

This research investigated the influence of macroeconomic and microeconomic variable on capital structure and financial performance of Indonesia Food and Beverage Companies during period 2004-2010. Using Partial Least Square Method, the result showed that Macroeconomic and Microeconomic Variable has significant negative influence on Financial Performance. However, the influence of Capital Structure on Financial Performance showed significantly positive. This suggested that profitable firms depend more on debt as their main financing option.

Keywords: Capital Structure, Indonesia, Financial Performance, Food and Beverages Companies

INTRODUCTION OF THE RESEARCH

Decisions concerning capital structure are very important for every business organization. It involves the selection of debt and equity securities in a balanced proportion keeping in view of different costs and benefits coupled with these securities. Inappropriate decision in the selection process of the proportion of debt and equity may lead the firm to financial distress and eventually to bankruptcy. Although actual levels of debt and equity may vary somewhat overtime, most firms try to keep their financing mix close to a target capital structure. To determine the effect of debt to the company's profitability there should be factors that needed to be considered which affect the management decision on capital structure.

The relationship between capital structure decisions and firm value has been extensively investigated in the past few decades. Researchers continue to analyze capital structure and try to determine whether optimal capital structures exist. Modigliani and Miller (MM) (1958) stated that the choice between debt and equity financing has no material effects on the firm value, therefore, management of a firm should stop worrying about the proportion of debt and equity securities because in perfect capital markets any combination of debt and equity securities is as good as another. The other MM's assumptions are no taxes, no brokerage costs, no bankruptcy costs, that investors and corporations can borrow at the same rate, and investors have the same information about a firm's prospects as its managers. However, these restrictive assumptions do not hold in the real world, which led many researchers to introduce additional rationalization for this proposition and its underlying assumptions showing that capital structure affects firm's value and performance, especially after the seminal paper of Jensen and Meckling (1976) which demonstrate that the amount of leverage in a firm's capital structure affects the agency conflicts between managers and shareholders.

One of the theories which arose as a result of criticism of MM theorem is "Trade-off Theory". Trade-off theory recognizes the tax benefit of debt. According to Kraus and Litzenberger (1973) in Hatfield et al. (1994), an optimal leverage reflects a trade-off between tax benefits of debt and bankruptcy costs. A company that follows the trade-off theory balancing the benefits of debt financing

(favorable corporate tax treatment) against the higher interest rates and bankruptcy costs (Myers, 1984). In practice, bankruptcy can force a firm to liquidate or sell assets for less than they would be worth if the firm were to continue operating. Bankruptcy-related problems are most likely to arise when a firm includes a great deal of debt in its capital structure. Myers (1984) also suggested that the costs of issuing risky debt or equity overwhelm the forces that determine optimal leverage in the trade-off model. The result is the "Pecking Order Theory", which states that firms finance investments first with retained earnings, then with safe debt, then with risky debt, and finally, with equity. According to pecking order theory, more profitable firms borrow less, because they have more internal financing available and the less profitable firms require external financing, and consequently accumulate debt.

Moreover, another MM's assumption stated investors have the same information about a firm's prospects as its managers. However in fact, managers often have better information than outside investors. Myers and Majluf (1984) assumed that a firm is undervalued because managers have, but cannot reveal, information concerning new and existing investment opportunities. Investors are aware of this asymmetric information problem, and they discount the firm's new and existing risky securities when stock issues are announced. On the other side, managers avoid issuing undervalued securities by financing projects with retained earnings and with low-risk debt. This is called asymmetric information, and it has an important effect on the optimal capital structure (Brigham and Daves, 2004).

Despite the theoretical appeal of capital structure, a specific methodology has not been realized yet, which managers can use in order to determine an optimal debt level. However, these theories provide some help in understanding the financing behavior of firms as well as in identifying the potential factors that affect the capital structure. Macroeconomic factors such as the foreign debt to Gross Domestic Product (GDP) ratio, the debt service to export ratio, the real exchange rate appreciation, the real interest rate, the history of sovereign debt rescheduling, and political risk, among others, affect the choice of debt instrument (Hale, 2003). Bokpin (2009) suggested that the effect of macroeconomic factors on capital structure varies with capital

structure measurement variable in most cases. Bank credit is significant in predicting capital structure choices of firms, while Gross Domestic Product (GDP) has a significantly negative relationship with capital structure choices. Inflation on the other hand positively influences the choice of short-term debt over equity. While the other factors that can affect on capital structure is microeconomic variable within a company. Nikolaos et al (2007) found that firm size, liquidity, coverage ratios, growth as the factors that influence capital structure decisions and affect the company's financial performance. Viviani (2008) revealed that profitability, cash, asset turnover, firm age, and non debt tax shield have negative impact on short-term debt ratio. Whereas past growth and tangibility have positive impact on capital structure, and no impact of size and risk on capital structure.

Ebaid (2009) using three of accounting-based measures of financial performance (i.e. return on equity (ROE), return on assets (ROA), and gross profit margin), and based on a sample of non-financial Egyptian listed firms from 1997 to 2005 the results revealed that capital structure choice decision, in general terms, has a weak-to-no impact on firm's performance in Egypt. While, Abor (2005) did an analysis about the relationship between capital structure and profitability of listed firms on the Ghana Stock Exchange (GSE) during a five-year period. With regard to the relationship between total debt and return rates, the results showed a significantly positive association between the ratio of total debt to total assets and return on equity.

The research that explained factors that determine capital structure and financial performance, and the relationship among them still have different result. Some researchers found that there is positive relationship among them but some of them said negative or even have no impact. Hence, this research analyzed the influence of macroeconomic and microeconomic variables on capital structure and financial performance in Food and Beverages Companies listed in Indonesia Stock Exchange (IDX) during period 2004-2010.

PRIOR RESEARCH AND HYPOTHESES DEVELOPMENT

The research about factors that determine capital structure and financial performance and the relationship among them has been extensively

investigated in the past few decades but still has different result. Hale (2003) revealed that macroeconomic factors such as the foreign debt to GDP ratio, the debt service to exports ratio, the real exchange rate appreciation, the real interest rate, the history of sovereign debt rescheduling, and political risk, among others, affect the choice of debt instrument. Chen et al. (2009) found that economic growth rate, inflation, and unemployment rate significantly and positively influence capital structure and operational risk. Inflation increases the level of debt (Kim and Wu, 1988). Chadegani et al. (2011) showed that interest rate, inflation, GDP has negative impact on debt to equity ratio, while exchange rate has positive impact on debt equity ratio. Then the first hypotheses will be:

H1: Macroeconomic variable has significant influence on capital structure

The capital structure is not only affected by macroeconomic variable itself, microeconomic variable is used to give more insight on how decision of capital structure is influenced. Microeconomic variables such as firm size, age, profitability, growth, operating risk, asset structure have an effect on short term and long term debt (Michaelas et al., 1998). The better the characteristics of the firm will be positively related to the use of debt in capital structure decisions. Viviani (2008) showed that past growth and tangibility have positive influence on capital structure, while profitability, asset turnover, firm age, and non debt tax shield have negative impact on short term debt ratio. The company with more tangible assets, more profit and larger size has significant influence on capital structure (Frank and Goyal, 2009). Sheikh and Wang (2011) revealed that the debt ratio is positively correlated with firm size and negatively correlated with earnings volatility, tangibility, and liquidity. Moreover, no significant relationship is found between the debt ratio and growth opportunities. Therefore the second hypothesis is:

H2: Microeconomic variable has significant influence on capital structure

Every company definitely wants to have a great financial performance. According to previous research, financial performance can be affected by macroeconomic variable. Khrawish (2011) found that there are significant and negative relationship between ROE and Annual Growth Rate for Gross Domestic Product

(GDPGR), and inflation rate of the commercial banks in Jordan. Chen et al. (2009) revealed that economic growth rate, inflation, and unemployment have positive impact on profitability. Therefore, the third hypothesis is:

H3: Macroeconomic variable has significant influence on company's financial performance

Another factor that might affect financial performance is Microeconomic variable. As previous research such as Nikolaos et al. (2007) defined the firm size, liquidity, coverage ratios, growth as the factors that influence capital structure decisions and affect the company's financial performance. Therefore, the fourth hypothesis is:

H4: Microeconomic variable has significant influence on company's financial performance

The decision related with capital structure is very fundamental for the company, especially the effect on company financial performance. In stable environment, greater leverage has a positive impact on financial performance while greater leverage has a negative impact on financial performance in dynamic environment (Simerly and Li, 2000). Abor (2005) examined that ratio of short-term debt to total assets has a significantly positive relation with ROE and negative relationship found between the ratio of long-term debt to total assets and ROE. With regard to the relationship between total debt and return rates, the result showed a significantly positive association. While, the other results revealed that capital structure has negative significant influence on profitability (Bokpin, 2009; Chen et al., 2009) Therefore, the fifth hypothesis is:

H5: Capital structure has significant influence on company's financial performance

MEASUREMENT OF VARIABLES

Macroeconomic Variable

Macroeconomics is the movement and trends in the economy as a whole in a country. In this research, macroeconomic indicators are factors that are outside the company, but have influence on the increase or decrease the company performance either directly or indirectly.

Interest Rate. An interest rate is the rate at which interest is paid by a borrower for the use of money that they borrow from a lender. This

research use Bank Indonesia rate (BI rate) as one of the indicators of macroeconomics variables. Bank Indonesia (BI) is Central Bank of Republic of Indonesia. As stated in www.bi.go.id, BI rate can influence the bank's interest rate and the lending decision.

Inflation. In economic, inflation is a rise in the general level of prices of goods and services in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. Inflation affects sales revenue and borrowing of a firm through changes in nominal cash flows and the discount rate (Günsel and Çukur, 2007). Inflation affects the interest rate as well as the general economic confidence in a country. High inflation tends to force the interest rate higher to enable investors to still achieve a sufficient return on their investments. It consequently increases the cost of debt financing to firms. High interest rates, due to high inflation, normally reduces the domestic demand and consequently has an adverse effect on economic growth (Brigham and Daves, 2004). This research use inflation data that has been announced by Bank Indonesia to the public.

Exchange Rate. Exchange rate regarded as the value of one country's currency in terms of another currency (O'Sullivan and Sheffrin, 2003). A country's exchange rate is determined by the demand and supply of its currency relative to the demand and supply of a foreign currency. The demand for a currency is mainly driven by foreign investments and the desire for foreign products and services. Exchange rate depreciation is the decrease in the price of the domestic currency in terms of a foreign currency, while exchange rate appreciation is an increase in the price of the domestic currency relative to the foreign currency. An exchange rate appreciation is often accompanied by an increase in capital inflows into the country. Firms will consequently have access to more foreign capital for financing purposes. This research use middle exchange rate of rupiah against U.S. dollar that has been announced by Bank Indonesia. Using U.S. dollar as a comparison, because U.S. dollar is the currency that is widely used in the export-import activity of Indonesia.

Microeconomic Variable

Microeconomic in this research focuses on characteristics of the company that basically reflect the company's condition. The

characteristic of the company such as growth stability, assets structure, operating leverage, growth rate, and others are the factors that influence capital structure (Brigham and Daves, 2004; Nikolaos *et.al.*, 2007). In that study the characteristics of the company can also be regarded as determinant of capital structure that could affect capital structure decisions and company financial performance.

Sales growth. Sales growth is the increase in the number of sales from year to year or from time to time. Based on Brigham and Houston (2006), companies that have high growth rates will require large funding from external sources, so tend to use more debt. Companies with relatively stable sales could use a bigger debt than firms with sales that are not stable. The way to measure is comparing the sales in year *t* and sales in the previous year and divided by sales in previous year.

Company Size. Company size indicates the value of assets that the company has. According to Marsh (1982) and Bennett and Donnelly (1993) in Nikolaos *et al.* (2007) found that large companies tend to use more debt. The formulation of Company size is log natural of Total Assets (Ebaid, 2009)

Tangibility. Based on Brigham and Daves (2004), firms whose assets are suitable as security for loans tend to use debt rather heavily. The trade-off theory suggests a positive relationship between the share of fixed assets and debt ratio, since fixed assets serve as collateral for debt financing (Harris and Raviv, 1991; Myers, 1977; Myers and Majluf, 1984). In the pecking order theory, however, firms that own more fixed assets have less asymmetrical information. Therefore, they tend to depend on equity financing. Tangibility in this research based on research Rajan and Zingales (1994) measured the ratio of fixed assets to total assets,

Liquidity. Liquidity ratios have both a positive and a negative effect on the capital structure decision (Mouamer, 2011). Firms with high liquidity ratio may have relatively higher debt ratios due to their greater ability to meet short-term obligations. This argument suggests a positive relationship between a firm's liquidity and its debt ratio. Alternatively, firms with more liquid assets may use such assets as sources of finance to fund future investment opportunities. Thus, a firm's liquidity position would have a negative impact on its leverage ratio (Myers and Rajan, 1998). Based on Brigham and Houston

(2006), liquidity ratio can be measured as current assets divided by current liabilities.

Capital Structure

The firm's mixture of debt and equity is called its capital structure (Brigham and Daves, 2004). According to Horne (1998), capital structure is the composition of capital expenditures that typically refers to the proportion between the long-term debt, preferred stock, and equity that are presented in the balance sheet. Although actual levels of debt and equity may vary somewhat overtime, most firms try to keep their financing mix close to a target capital structure. As with operating decisions, managers should make capital structure decisions designed to maximize the firm's value. Similar to prior research (Michaelas *et.al.*, 1998; Abor, 2005; Buferna *et al.*, 2005; Ebaid 2009; Chadegani *et.al.*, 2011; Mouamer, 2011), capital structure was measured by three ratios: total debt ratio to total assets, short term debt ratio to total assets, and long term debt ratio to total assets.

Financial performance

Financial performance is generally defined as the use of outcome-based financial indicators that are assumed to reflect the fulfillment of the economic goals of the firm. Based on Ebaid (2009), financial performance is a tool to measure the achievements of the company through its capital structure. Company financial performance can be measured through accounting-based measures calculated from firm's financial statements such as ROE, ROA, and GM (e.g. Abor, 2005), market based measures such as stock returns and volatility (Welch, 2004), or Tobin's Q measure which mixes market values with accounting values (Zeitun and Tian, 2007). This research use both accounting-based and Tobin's Q measure.

RESEARCH METHODOLOGY

Sample

The selection of samples in this study based on purposive sampling, which uses the technique of determining the sample with a certain criteria. Based on the criteria, from 23 Food and Beverages Companies, which meet the criteria as research sample are 17 Food and Beverages Companies.

Secondary data in the form of financial statement of Indonesia Food and Beverages Companies during period 2004-2010 is obtained from the Indonesian Capital Market Directory (ICMD) and IDX official site www.idx.co.id. While, secondary data in the form of interest rate, exchange rate, inflation, and economic growth during that 7 - year- period is obtained from the report of Bank Indonesia in website www.bi.go.id.

Data Analysis Method

Model analysis that used in this study is Partial Least Square (PLS). Based on Achjari (2004), we can use PLS when research model indicate more than one dependent variables, data are not multivariate normal, has small samples or a limited number of cases, or the research model involving items as well as formative and reflective items. Advantages of PLS is its ability to map the entire path to the many dependent variables in one same research model and analyze all paths in structural models simultaneously (Fornell and Bookstein, 1982; Barclay, Higgins, and Thompson, 1995; Gefen, Straub, and Boudreau, 2000; in Achjari, 2004). According to Henseler (2009), the popularity of PLS results from four huge advantages: first, PLS path modeling can be used when distribution are highly skewed (Bagozzi and Yi, 1994). Second, PLS path modeling can be used to estimate relationship between latent variables with several indicators when sample size is small (Chin and Newsted, 1999). Third, modern easy-to-use PLS software with graphical user-interface, like SmartPLS (Ringle et al., 2007). Fourth, PLS is preferred over covariance-based structural equation modeling when improper or non-convergent results are likely (Krijnen et al., 1998). In the PLS, latent variables can be a reflection of the indicator which is termed a reflective indicators. In addition, the construct can also be formed by the indicator is termed a formative indicator. To perform PLS analysis, we used SmartPLS program. In PLS analysis, test steps model as follows (Ghozali, 2011):

1. Designing Structural Model (Inner Model)

Inner model or structural model describing the relationship between latent variables based on theory (see appendix table 2). Designing structural model based on the formulation of the problem or research hypothesis. Inner model shows the relationships between the latent constructs. In the structural model, we

distinguish between exogenous and endogenous constructs. The term exogenous is used to describe latent constructs that do not have any structural path relationships pointing at them. Thus, the term endogenous describes latent target constructs in the structural model that are explained by other constructs via structural model relationships.

2. Designing Measurement Model (Outer Model)

Outer model or measurement model defines how each block of indicators related to its latent variable. Designing measurements model to determine the nature of the indicators of each latent variable, whether reflective or formative, based on operational definitions of variables. PLS can handle both formative and reflective measurement models. Reflective indicators are seen as functions of the latent construct, and changes in the latent construct are reflected in changes in the indicator variables. Reflective indicators are represented as single headed arrows pointing from the latent construct outward to the indicatovariables; the associated coefficients for these relationships are called outer loadings. While, formative indicators are not influenced by but influence the latent variables (Bollen and Lennox, 1991 in Haenlein and Kaplan, 2004), and changes in the indicators determine changes in the value of the latent construct. Formative indicators are represented by single-headed arrows pointing toward the latent construct inward from the indicator variables; the associated coefficients for these formative relationships are called outer weights. Outer model in this research are reflective.

3. Construct a Path Diagram

If steps 1 and 2 have been done, then to make the result easier to understand, the results of the inner model and outer model can be expressed in terms of path diagram (see appendix table 3).

4. Conversion Chart Path to Systems of Equations (Haenlein and Kaplan, 2004)

a. Outer model describes the relationship between the latent variable with its indicators.

- Macroeconomic variable (1)

$$X_1 = \lambda_{x_{11}} \xi_1 + \delta_1$$

$$X_2 = \lambda_{x_{21}} \xi_1 + \delta_2$$

$$X_3 = \lambda_{x_{31}} \xi_1 + \delta_3$$

- Microeconomic variable (2)

$$X_4 = \lambda_{x_{42}} \xi_2 + \delta_4$$

$$X_5 = \lambda_{x_{52}} \xi_2 + \delta_5$$

$$X_6 = \lambda_{x_{62}} \xi_2 + \delta_6$$

$$X_7 = \lambda_{x_{72}} \xi_2 + \delta_7$$

- Capital Structure (1)

$$Y_1 = \lambda_{y_{11}} \eta_1 + \varepsilon_1$$

$$Y_2 = \lambda_{y_{21}} \eta_1 + \varepsilon_2$$

$$Y_3 = \lambda_{y_{31}} \eta_1 + \varepsilon_3$$

- Financial Performance (2)

$$Y_4 = \lambda_{y_{42}} \eta_2 + \varepsilon_4$$

$$Y_5 = \lambda_{y_{52}} \eta_2 + \varepsilon_5$$

$$Y_6 = \lambda_{y_{62}} \eta_2 + \varepsilon_6$$

$$Y_7 = \lambda_{y_{72}} \eta_2 + \varepsilon_7$$

b. Inner model describes the relationship between latent variables based on theory.

- Macroeconomic Variable, Microeconomic Variable – Capital Structure

$$\eta_1 = \gamma_{1.1} \xi_1 + \gamma_{1.2} \xi_2 + \zeta_1$$

- Macroeconomic Variable, Microeconomic Variable, Capital Structure – Financial Performance

$$\eta_2 = \beta_{2.1} \eta_1 + \gamma_{2.1} \xi_1 + \gamma_{2.2} \xi_2 + \zeta_2$$

Info (Haenlein and Kaplan, 2004):

η (eta) = latent endogenous variable;

ξ (xi) = latent exogenous (i.e., independent) variable;

ζ (zeta) = random disturbance term;

γ (gamma) = path coefficient;

y_i = indicators of endogenous variables;

ε_i (epsilon) = measurement errors for indicators of endogenous variable;

λ_{yi} (lambda y) = loadings of indicators of endogenous variable;

x_i = indicators of endogenous variable;

δ_i (delta) = measurement errors for indicators of exogenous variable;

λ_{xi} = (lambda x) loadings of indicators of exogenous variable.

5. Model Evaluation

The reflective measurement model or outer model was evaluated through convergent and discriminant validity from its indicator and composite reliability for block of indicator. While, formative outer model was evaluated based on its substantive content through comparing the relative weight and see the significance of that weight.

6. Goodness of Fit Evaluation

Goodness of Fit Model was measured using R^2 of the dependent latent variable with the same interpretation to the regression. R^2 value reflects the overall predictive power of the model (Ghozali, 2011) with the restriction R-square values greater than 0.10 or greater than 10 percent (Pirouz, 2006). Goodness of Fit Model also can be evaluated with the value of Stone-Geisser Q^2 . Q^2 value greater than 0 (zero) indicates that the model has predictive relevance, whereas the Q^2 value is less than 0 (zero) indicates that the model lacks predictive relevance (Ghozali, 2006).

$$Q^2 = 1 - (1 - R_1^2) (1 - R_2^2) \dots (1 - R_p^2)$$

7. Hypothesis Testing (Bootstrapping)

Hypothesis testing is done by Bootstrapping method. Implementation of this method does not require the assumption of normal distribution, and does not require a large sample. The test can be done by t-test statistics. It means significant when t-value above $\pm t$ table (± 1.980 in 5% level of error or ± 1.658 in 10% level of error). If the test results in a significant inner model, it means that there is influence between the latent variables.

RESULT

To find out if an indicator is the former of construct (latent variable), testing the outer model through convergent validity, discriminant validity, and composite reliability have done. Convergent validity with reflective indicator assessed through the correlation between indicator score and its construct score. Reliable indicator has a factor loading ≥ 0.5 T-statistics $\geq \pm 1.980$ at the level of significance 0.05 or $\geq \pm 1.658$ at the level of significant 0.1. If one of the indicators has a loading value < 0.5 , or T-statistic value < 1.658 , the indicator should be dropped out because it indicates that the indicators are not good enough to measure the construct accurately.

Based on the results of testing convergent validity, it is known that sales growth, short term debt ratio, exchange rate, ROA, and ROE should be dropped out from the model because has factor loading < 0.5 .

After those indicators have been dropped out from the model, we re-estimated the model. Table 2 showed that all of variables have good convergent validity with factor loading > 0.5 . It means indicators of Capital Structure, Financial Performance, Macroeconomic Variables, and Microeconomic Variables are valid to measure the latent variables. Those indicators also meet discriminant validity with the value of square root of the Average Variance Extracted (AVE) more than the correlations value among latent variables, so the indicators are truly worthy to explain the latent variables. Besides we tested the discriminant validity, construct reliability is also important. Based on the composite reliability test in Table 3, it can be seen that Capital Structure, Financial Performance, Macroeconomic Variables, and Microeconomic Variables, has a composite measure of reliability greater than 0.60. It means, the key Indicators of Capital Structure, Financial Performance, Macroeconomic Variables, and Microeconomic Variables actually reinforce each other or able to measure the latent variables. Goodness of Fit Model was measured using R^2 value. The R^2 value showed 0.2836 for Financial Performance and 0.0139 for Capital Structure. Based on Pirouz (2006), if the R^2 value greater than 0.10, it means financial performance has a predictive power. Cohen (1988) in Kleijnen et al. (2007) categorized R^2 effect sizes as: small: 0.02; medium: 0.13; large: 0.26. Based on that, we concluded that these effect sizes are large for Financial Performance, and small for Capital Structure.

From the Path Coefficient Table (Table 5) showed that Macroeconomic Variable has significant negative influence on Financial Performance with t-value 1.7946 (10% level of error). Negative significant influence also appeared between Microeconomic Variable on Financial Performance relationship with t-value 3.5653 (1% level of error). The influence of Capital Structure on Financial performance showed significantly positive with value of t-statistic 1.8399 (10% level of error). While the path coefficient for Macroeconomic Variable and Microeconomic Variable on Capital Structure each show the value of t-statistic 0.4093 and

0.6496, which is less than 1.658 ($\alpha = 10\%$), so it can be concluded that no significant influence between those variables.

CONCLUSION

Capital structure decisions are one of the most critical areas for any business organization. It is important because of the need to minimize a firm's cost of capital also maximizing shareholder's wealth. Hence, capital structure decisions have great impact on the financial performance of the firm. This research analyzed the influence of macroeconomic and microeconomic variable on capital structure decision and financial performance during 7-year- period (2004-2010) of listed food and beverage companies in Indonesia Stock Exchange using SmartPLS program. The result revealed that Macroeconomic and Microeconomic Variable has significant negative influence on Financial Performance. However, the influence of Capital Structure on Financial Performance showed significantly positive. This suggests that profitable firms might be depending more on debt as their main financing option.

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APPENDIX

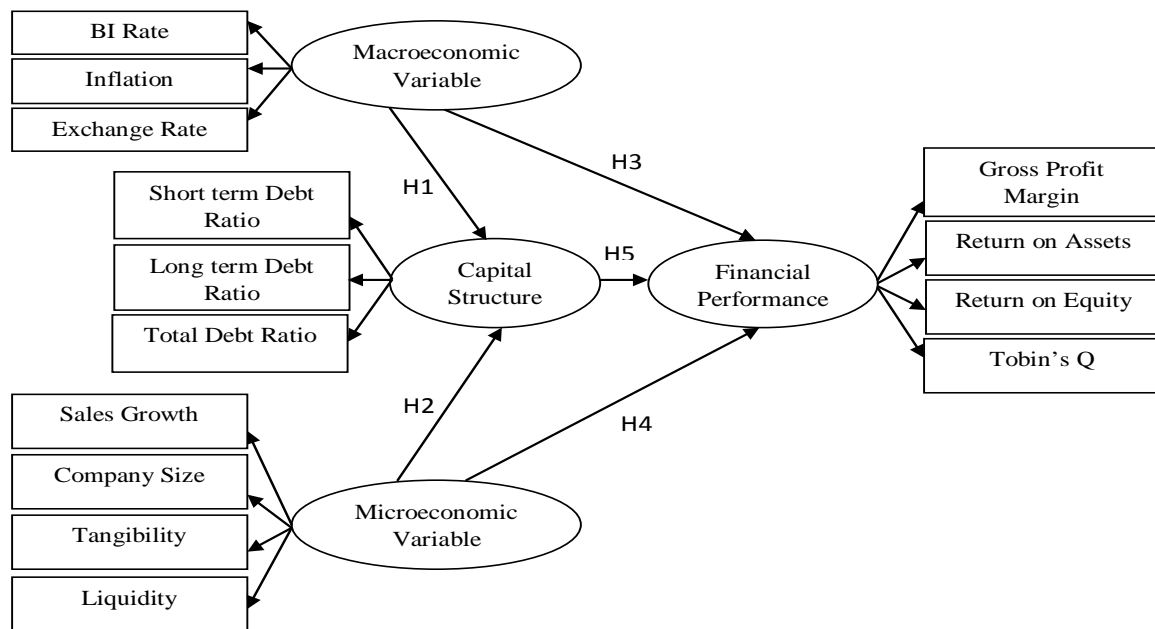


Figure 1 Hypothesis Framework

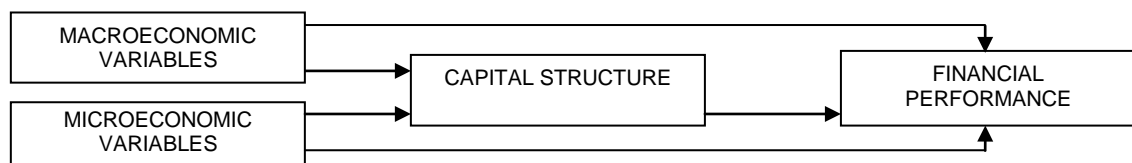


Figure 2 Inner Model PLS Analysis

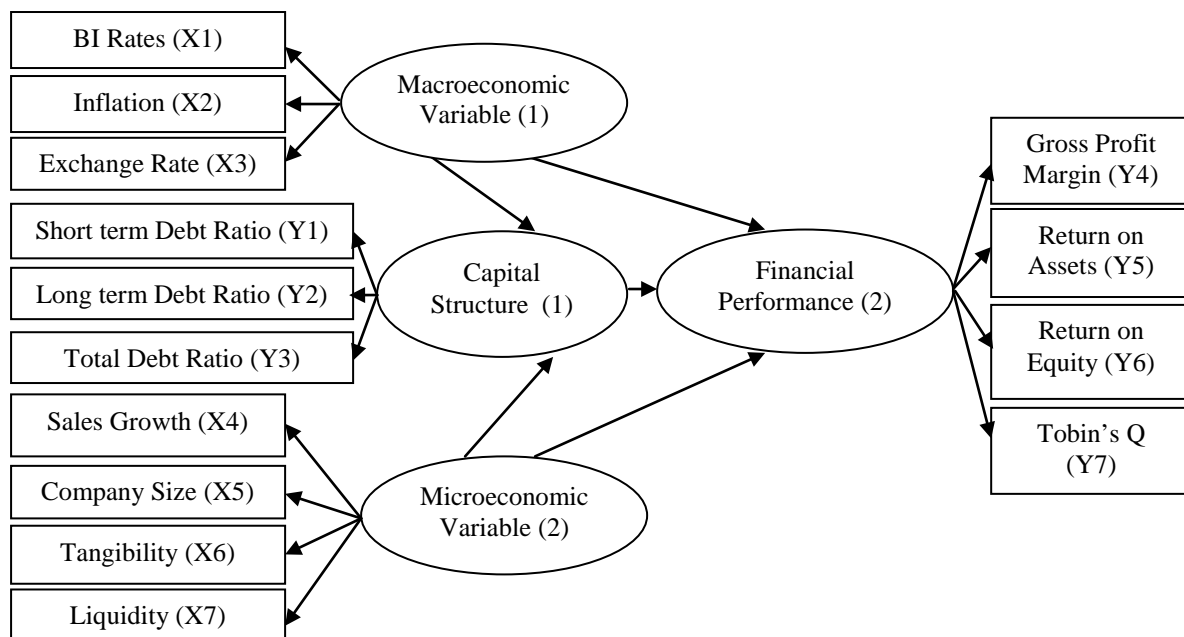


Figure 3 Path Diagram

Table 1 Measurement of the Indicators

Indicators	Measures used	References
Sales growth	$\frac{S_t - S_{t-1}}{S_{t-1}} \times 100 \%$	Michaelas et al., 1998; Viviani, 2008
Company size	Log natural of Total Assets	Michaelas et al., 1998; Viviani, 2008, Ebaid, 2009; Frank and Goyal, 2009; Mouamer, 2011
Tangibility	$\frac{\text{Fixed Assets}}{\text{Total Assets}}$	Rajan and Zingales, 1994; Viviani, 2008; Karadeniz et al., 2009; Mouamer, 2011;
Liquidity	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Myers and Rajan, 1998; Brigham and Houston, 2006; Viviani, 2008; Bokpin et al., 2010; Mouamer 2011
Total Debt Ratio	$\frac{\text{Total Debt}}{\text{Total Assets}}$	Michaelas et.al., 1998; Abor, 2005; Buferna et al., 2005; Nikolaos, 2007; Ebaid 2009; Chadegani et.al., 2011; Mouamer, 2011
Short term Debt Ratio	$\frac{\text{Short term Debt}}{\text{Total Assets}}$	Michaelas et.al., 1998; Abor, 2005; Buferna et al., 2005; Ebaid 2009; Chadegani et.al., 2011; Mouamer, 2011
Long term Debt Ratio	$\frac{\text{Long tern Debt}}{\text{Total Assets}}$	Michaelas et.al., 1998; Abor, 2005; Buferna et al., 2005; Ebaid 2009; Chadegani et.al., 2011; Mouamer, 2011
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$	Simerly and Li, 2000; Brigham and Houston, 2006; Bokpin, 2009; Ebaid, 2009; Prateepkanth, 2011; Maditinos et al., 2011
Return on Equity	$\frac{\text{Net Income}}{\text{Total Equity}}$	Abor, 2005; Brigham and Houston, 2006; Bokpin, 2009; Maditinos et al., 2011
Gross Profit Margin	$\frac{\text{Gross profit}}{\text{Sales}}$	Abor, 2005; Brigham and Houston, 2006; Prateepkanth, 2011
Tobin's Q	$\frac{(\text{MVE} + \text{Debt})}{\text{Book value of Total Assets}}$	Chung and Pruitt, 1994; Klapper and Love, 2002; Zeitun and Tian 2007; Yang, 2008

Table 2 Outer Loadings (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
BI Rate <- Macroeconomic	0.9785	0.9724	0.0941	0.0941	10.3986
Company Size <- Microeconomic	0.5246	0.4298	0.3030	0.3030	1.7310
GPM <- Financial Performance	0.6827	0.7330	0.1221	0.1221	5.5895
Inflation <- Macroeconomic	0.9795	0.9716	0.1080	0.1080	9.0704
Liquidity <- Microeconomic	0.5986	0.6460	0.1680	0.1680	3.5635
SDR <- Capital Structure	0.9658	0.9463	0.1363	0.1363	7.0837
TDR <- Capital Structure	0.8922	0.8271	0.2252	0.2252	3.9615
Tangibility <- Microeconomic	0.6825	0.6387	0.1982	0.1982	3.4429
Tobin's Q <- Financial Performance	0.9008	0.8594	0.1075	0.1075	8.3826

Table 3 Overview

	AVE	Composite Reliability	R Square
Capital Structure	0.8644	0.9272	0.0139
Financial Performance	0.6388	0.7763	0.2836
Macroeconomic	0.9585	0.9788	0.0000
Microeconomic	0.3664	0.6317	0.0000

Table 4 Latent Variable Correlations

	Capital Structure	Financial Performance	Macroeconomic	Microeconomic
Capital Structure	1.0000	0.0000	0.0000	0.0000
Financial Performance	0.2386	1.0000	0.0000	0.0000
Macroeconomic	0.0432	-0.1272	1.0000	0.0000
Microeconomic	-0.1105	-0.4797	-0.0229	1.0000

Table 5 Path Coefficients (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
Capital Structure -> Financial Performance	0.1939	0.1773	0.1054	0.1054	1.8399
Macroeconomic -> Capital Structure	0.0407	0.0413	0.0995	0.0995	0.4093
Macroeconomic -> Financial Performance	-0.1461	-0.1383	0.0814	0.0814	1.7946
Microeconomic -> Capital Structure	-0.1096	-0.1391	0.1687	0.1687	0.6495
Microeconomic -> Financial Performance	-0.4616	-0.4967	0.1295	0.1295	3.5653